CHAPTER 1

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India is a developing country. Industrialisation has a major role to play in the economic development of India. A rapid pace of industrialisation is urgently called for to achieving the basic objectives of economic and social progress. This is because, rapid industrialisation is the only solution to the problem of raising the living standard of the people. To quote the United Nations: Industrialisation is a process of growth and as such is organically linked both to the social and economic past and to parallel processes of social and economic development.

Prof. Gunnar Myrdal has rightly pointed out the impact of industrialisation on the economic development in the following words: The manufacturing industry represents, in a sense, a high stage of production in advanced countries, the development of manufacturing industry has been concomitant with these countries, spectacular economic progress and rise in the level of living. Not least in the underdeveloped countries, the productivity in industry tends to be considerably greater than in the traditional agricultural pursuits.


Modern industrialism is characterised by many large manufacturing units, but small scale units also continue to flourish alongside with them. The SSI sector is found more popular even in the highly industrialised countries.

In a country like India, small industry facilitates effective mobilisation of resources, capital and skill particularly in the countryside which might otherwise remain either dormant or under-utilised.

The belief in the value of small scale enterprises whether of the more traditional handicraft variety or the more modern machinery and power using type, has a long background in Indian thought, going back at least to Gandhi.

It is no small wonder therefore that the development of Small Industry has been assigned a crucial role in the growth of the Indian Economy. Many developing countries have encouraged the promotion of small industries in the belief that they are labour-intensive, use capital more productively and thus, combine abundant labour with scarce capital more efficiently.

CONCEPT OF SMALL SCALE INDUSTRY

The definition of small industry is an important aspect of Government policy as it identifies the target groups. In India, a small scale unit was first defined by the Small-Scale Industries Board at its first meeting held on 5th and 6th January 1955.

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as follows: A unit employing less than 50 workers if using power and less than 100 workers when working without power and having an investment in fixed assets not exceeding Rs. 0.5 million. The oldest definition perhaps, on small-scale industry was given by Prof. K.T. Shah, General Secretary of National Congress which is given below:

A Small-Scale or cottage industry may be defined to be an enterprise or series of operations carried on by a workman skilled in the craft on his responsibility, the finished product of which, he markets himself. He works in his home with his own tools and materials and provides his own labour or at most the labour of such members of his family, as are able to assist. These workers work mostly by hand-labour and personal skill with little or no aid from modern power-driven machinery and in accordance with traditional techniques. Such supplementary energy as is provided by animal power may add to economy and efficiency of the industry. He works, finally, for a market in the immediate neighbourhood that is to say in response to known demand with reference to quality as well as quantity. The National Productivity Council also defines Small Industry as all units which (a) use power and employ less than ten workers (including family labour) or (b) do not use power but employ upto 20 workers.

Development Commissioner, Small Scale Industries in India, Ministry of Industrial Development and Company Affairs, New Delhi, 1968 p.3.

Shah K.T. General Secretary of National Planning Committee - Rural and Cottage Industries - National productivity Council 1938, pp. 24-25

Productivity: Journal of National Productivity Council, Vol.3, No.5 and 6, Aug-Nov. 1962, p.915
The first official criterion for SSI dates back to the Second Five Year Plan (1956-1960) when it was in terms of gross investments in land, buildings, plant and machinery and the strength of the labour force. Subsequently on the recommendation of the Federation of Association of Small Scale Industries of India (FASII), an apex level organisation of small scale industries setup under the aegis of Ford Foundation Team, only the investment in fixed assets in plant and machinery, whether held in ownership terms or by lease or by hire purchase, instead of fixing the limit on overall investment, was considered for granting the status of a small scale industrial unit. From time to time there were many changes in the ceiling of investment in plant and machinery as shown in the Table 1.1.

Accordingly, small industrial unit is presently defined as: a unit engaged in manufacturing, servicing, repairing, processing and preservation of goods having investment in plant and machinery at an original cost not exceeding Rs. 60 lakhs, and an ancillary undertaking is defined as: a unit having investment in fixed assets in plant and machinery not exceeding Rs. 75 lakhs and engaged in the manufacture of parts, components, sub-assemblies, toolings or intermediates or the rendering of services and supplying or proposing to supply or render 30 percent of their production or the total services, as the case may be to other units for production of other articles, provided that no such undertaking shall be subsidiary of or owned or controlled by any other undertaking.
### TABLE 1.1

**CHANGES IN THE DEFINITIONS OF SMALL SCALE (SS) AND ANCILLARY (A) UNDERTAKINGS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Defining Authority</th>
<th>Investment Ceiling</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>Small Scale Industries Board, Govt. of India</td>
<td>SS: Rs. 5 lakhs and employing less than 50 persons when using power and less than 100 persons when not using power.</td>
</tr>
</tbody>
</table>
| 1966 | Ministry of Industry, Govt. of India | SS: Investment in plant and machinery not exceeding Rs. 7.5 lakhs  
A: Rs. 10 lakhs |
| 1975 | Small Scale Industries Board, Govt. of India | SS: Rs. 10 lakhs  
A: Rs. 15 lakhs |
| 1980 | Ministry of Industry, Govt. of India | SS: Rs. 20 lakhs  
A: Rs. 25 lakhs |
| 1985 | Ministry of Industry, Govt. of India | SS: Rs. 35 lakhs  
A: Rs. 45 lakhs |
| 1990 | Ministry of Industry, Govt. of India | SS: Rs. 60 lakhs  
A: Rs. 75 lakhs |

**Source:** *Punjab National Bank Monthly Review, June 1990, p. 351*

Within the overall SSI sector, there are industrial units called *Tiny Units* which are defined as: those undertakings which have investment in plant and machinery not exceeding Rs. 5 lakhs and located in towns with a population of 50,000 or below. Besides these, the service establishments are those undertakings with an investment not exceeding Rs. 2 lakhs and located in rural areas and towns with population of 5 lakhs or less.
It is important in this context to distinguish small scale industry from cottage industry. The First Five Year Plan (1951-1956) made the following lines of difference between the two types:

(i) While small scale industries mainly located in urban centres are separated establishments, the cottage industries are generally associated with agriculture and provide subsidiary employment in rural areas.

and

(ii) While small scale industries produce goods with partially or wholly mechanised equipment employing outside labour, the cottage industries involve operations mostly by hand, which are carried on primarily with the help of the members of the family.

DEFINITION OF SMALL INDUSTRY IN SELECT COUNTRIES

It is interesting to compare the above definition with that adopted in some other countries. The definitions on small scale industries prevalent in some countries are shown in Table 1.2.

OBJECTIVES OF SMALL SCALE INDUSTRY

The basic objectives of small scale industries are to create immediate and permanent employment opportunities on a massive scale at a relatively lower cost; to meet a substantial part of the increased demand for consumer goods and simple

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producers goods; to facilitate the mobilisation of resources of capital and skill which might otherwise remain under-utilised and to bring about an integration of the development of these industries with the rural economy on the one hand and with large scale sector on the other.

**TABLE 1.2**

<table>
<thead>
<tr>
<th>Name of Country</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt, Israel and Turkey</td>
<td>Units employing less than 10 persons</td>
</tr>
<tr>
<td>Germany</td>
<td>Units employing upto 300 workers</td>
</tr>
<tr>
<td>Norway and Sweden</td>
<td>Units employing 10 to 100 workers</td>
</tr>
<tr>
<td>Iran</td>
<td>Units with assets not exceeding 5 million Riyals</td>
</tr>
<tr>
<td>Italy</td>
<td>Units with investment not exceeding 1500 million Lire and employing more than 500 workers</td>
</tr>
<tr>
<td>Japan</td>
<td>Units with a capital of less than 50 million Yen and employing more than 300 persons</td>
</tr>
<tr>
<td>Sudan</td>
<td>Units with a capital investment of less than LS 50,000 or units employing less than 30 workers</td>
</tr>
<tr>
<td>Taiwan</td>
<td>Units with total assets not exceeding $ 5 million or units employing less than 100 persons</td>
</tr>
<tr>
<td>Turkey</td>
<td>Units employing less than 10 workers and having a connected load of less than 10 h.p.</td>
</tr>
<tr>
<td>U.K.</td>
<td>Units employing less than 500 workers</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>Units employing less than 500 persons</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Units with capital investment upto 20 million Piasters and employing less than 300 persons</td>
</tr>
</tbody>
</table>

Small Scale Industries including traditional village industries, small workshops and modern small enterprises have been given an important place in the framework of Indian economic planning for ideological and economic reasons. The SSI has been imbued with a multiplicity of objectives, important among them being:

i) the generation of immediate employment opportunities with relatively low investment;

ii) the promotion of more equitable distribution of national income;

iii) effective mobilisation of untapped capital and human skills and

iv) dispersal of manufacturing activities all over the country, leading to growth of villages, small firms and economically backward regions.

Other objectives include: a) attainment of self-reliance, (b) reduction of regional imbalance, (c) meeting substantial part of the Economy’s requirement of consumer goods and simple producer goods, (d) counteracting tendencies towards concentration of economic power by a widening of opportunities for new entrants for small and medium sized units.

CASE FOR SMALL SCALE INDUSTRY

Industrial development of the under developed countries has become one of the great world crusades of modern times. It is a campaign in which the advanced countries compete with each other to meet the rising claims of the non-industrial population.

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countries for help in the process of industrialisation. It is an effort through which the underdeveloped countries can find a solution to their problems of poverty, insecurity and over population and end their backwardness in the modern world.

Whilst big business may be valuable, small business is vital. Small business develops components and ideas which big business uses in its products. Small business offers services that big business cannot accommodate. Small firms train workers who help big firms solve their problems. Small companies contribute to community in ways big business cannot.  

There is a strong case for organising and promoting small scale industry, especially in developing countries. In the words of Enyinna Chuta and Carl Liedholm: "... many developing countries have consequently become increasingly aware of and interested in assessing the role that small scale establishments might play in their industrialisation strategy. If, for example, small scale industrial establishments are more labour-intensive, more widely dispersed, generate more output per unit of capital, require less foreign exchange and produce a higher economic profit than their large scale counterparts, then strong economic justification would exist for promoting small scale firms."

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In the developing countries, much emphasis has been laid on the development of SSIs, because Governments of these countries are of the opinion that "the establishment of small scale industries provides employment, tends to achieve a more equitable distribution of the national income and facilitates mobilisation of resources of capital and skill which might otherwise remain unutilised."

Gunnar Myrdal explains the need for promoting small industry in the following lines: the promotion of small business has become imperative not only for bringing about even economic growth of various regions of a country, but also for achieving a balance between large and small production units. In the words of the ADB: "... they stimulate growth of indigenous enterprises, promote balanced growth, lead to diversification of the industrial structure and contribute to a reduction of unemployment and alleviation of poverty."

Because of their unique economic and organisational characteristics, small enterprises are well placed to have important economic, social and political roles in all spheres of activity. In developing countries, where there are shortage of

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capital, managerial resources and skilled labour, the promotion of small enterprises may be an important approach to economic development\textsuperscript{15}.

A study of the industrialisation process of the developed countries reveals the importance of modern small scale industry in the industrial structure and the dynamic role which it plays in inter industry relations and in furthering development and growth\textsuperscript{16}.

The small industries sector has been recognised as an effective instrument for attaining the objectives of additional productive employment in rural and backward areas and increased production of items of mass consumption\textsuperscript{17}.

Many developing countries, with rapidly growing population and inadequate capital resources, have to rely heavily on small industries, which use modern capital saving technologies to increase gainful employment and thereby improve standards of living and working condition for the masses\textsuperscript{18}.


\textsuperscript{17} Tarun, T.N.S. Small Scale Industries and India’s Economic Development - Problems, Programmes and Policies, Deep & Deep Publications, New Delhi, 1986. p.155

Following arguments can be put forth in favour of small scale industries:

**EMPLOYMENT GENERATION**

The argument is based on the assumption that small enterprises are labour intensive and thus, create more employment per unit of capital employed. Emphasizing the employment potential of such enterprises, the Karve Committee, (1955) stated: The principle of self-employment is at least as important to a successful democracy as that of self-government.\(^{19}\)

In the words of the World Bank: One way to foster the creation of more urban or non-farm jobs per unit of capital invested is by encouraging development of small scale enterprises, which is generally more labour intensive than larger units.\(^{20}\) Commenting on the role of small industry, the ILO states: In all countries small scale industries provide employment for a substantial portion of the industrial labour force and accounts for a large proportion of all industrial establishments. It has a strategic role to play in the economic development of industrially less-advanced countries and remains important in the economies of the more highly industrialized countries.\(^{21}\)

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An employment oriented industrial programme to bridge the widening gulf between economic growth and surplus manpower is urgently called for.

Many small industrial establishments lend themselves to the use of capital-saving methods and SSI is therefore recognized as one effective means of tackling the problem of unemployment. With the growth of small enterprises new opportunities for employment are created, and in view of the fact that small enterprises are dispersed, they provide employment opportunities in many different areas and thus, reduce the flow of unemployed labour towards larger towns.

**NURSERY FOR ENTREPRENEURSHIP DEVELOPMENT**

Small enterprises play a significant role in nurturing entrepreneurship by imparting training and improving their skills. The small business sector provides an excellent nursery for the growth and development of entrepreneurial and managerial talents. This is because, Small scale enterprises and establishments are generally owned and managed by Proprietary / Partnership firms.

In the developing countries, small factories are the most effective means of stimulating indigenous entrepreneurship. Individuals may develop a potential for entrepreneurship in large enterprises as well. However, for want of adequate capital, they may be able to realize this only through the establishment of a small

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22 Extract from Shri. V.V. Giri's inaugural address at the first All India Small Scale Industries Exhibition at New Delhi on the 1st April 1971, on the occasion of the Second Afro-Asian Conference on Small Scale Industries.
company. Similarly, individuals drawn from all walks of life can realize their drive towards entrepreneurship through the establishment of small companies.

**COMPLEMENTARY ROLE**

The small industries sector provides a down stream base for the products manufactured by big sized industries, especially heavy and basic industries\(^\text{23}\). In the absence of a widespread small industrial network, market for the products of the heavy and basic industries will be limited.

Small Scale industries are complementary to big industries by aiding them through the medium of sub contracting and service. A number of SSI units supply parts and components to large industries engaged in the manufacture of machine tools, bicycles, automobiles, coach building and other railway equipment and electronics and electrical appliances and machinery.

**DECENTRALISATION**

Small business enterprises release the forces of competition and prevent the spread of monopolistic tendencies in the economy. The more the enterprises, the more the owners and the more the managers available for managing the business. This means diffusion of ownership and control. In its absence, the resources and their management would be controlled by either a few monopolists or a few bureaucrats.

The distribution of economic power through a system of small firms leads to a more favourable distribution of power in society in general. The existence of small firms has positive effects on political and social stability\textsuperscript{24}.

**EQUITABLE DISTRIBUTION OF WEALTH**

The small scale and cottage industries have in them the favour of reducing inequalities. With proper safeguards, they will result in a large and more widely distributed sharing of the productive function and therefore, a more equitable distribution of the produce of the industry\textsuperscript{25}.

**WIDE DISPERSAL OF INDUSTRY**

Small Industries can play the pivotal role by creating counter attractions in the small places so as to put a wall around the big cities\textsuperscript{26}. The decentralisation through dispersal of small scale industries is favoured to fill the cracks and gaps in the industrial structure created by the indiscriminate growth of large scale industries. In most developing countries the essential facilities for the establishment of industry are available only in large cities where industry tends to cling and cluster.


\textsuperscript{26} Dhar, P.N. and Lydall H.F. *The Role of Small Enterprises in Indian Economic Development*, Asia Publishing House, Bombay, 1961. p.20
The establishment of additional enterprises in urban areas may overstrain their limited infrastructure and affect the economies of production for all types of industry. One remedy is to direct industrial development to areas outside the metropolis and in this respect small scale industry has certain advantages. Small enterprises can make use of scattered raw materials available and serve limited markets. They may be able to utilize lower cost labour to manufacture components under agreements with large enterprises in urban centres. On the whole, small-scale industry has greater locational flexibility and can be more easily used, therefore, to achieve industrial dispersal.

LOW CAPITAL

Small Industries require only a low amount of capital. The capital investment required per employee is Rs.5,000\(^2\). This type of industry is highly suitable especially for a capital starved economy like India.

DIVERSIFICATION

Small scale industry is particularly useful in the diversification of the industrial structure. Where the size of the demand for a particular product is limited, production on a small scale is often the only alternative to imports and thus small scale industry facilitates the process of import substitution. Similarly, large-scale industry may require components and parts which may be uneconomic for

\[^2\] Lakshman, T.K. Seminar on Rural Employment through Rural Industrialisation - khadi and village Industries Commission Bombay and Centre for Rural Development Studies, Bangalore University, Bangalore, 1984.
production on a large scale, but quite feasible on a small scale. This type of ancillary development of small-scale industry eventually contributes to the strength and stabilization of both large and small-scale industry.

**UTILISATION OF RESOURCES**

Small-scale industry helps to tap resources which would otherwise remain dormant and thus, accelerates capital formation. Very often the capital invested comes from family savings which would otherwise remain idle, or by diversion of funds from luxury or non-productive expenditure. Small enterprises can often make use of raw materials available in certain localities or by-products of large enterprises which would normally remain unutilised.

**CAPITAL FORMATION**

The small business sector contributes towards capital formation by providing scope for the utilisation of skills and resources scattered all over the country. Any small business brings with it capital in the form of owner’s funds or in the form of loans and deposits of friends and relatives. This means productive employment of funds which would have been frittered away in either unproductive investments in Gold, landed property, speculation, smuggling etc.

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28 Parikh M. Suryakant, How to finance small business enterprises, MacMillan Company Ltd., New Delhi, 1977. p.11
SMALL SCALE INDUSTRIES IN SELECT COUNTRIES

SWITZERLAND

Switzerland is one of the industrially advanced countries where the small scale industries play an important role even today. Their industrial products are unique for the amount of labour incorporated in them. In the Swiss machinery industry, the labour factor represents 70 to 80 percent of the final cost. She places a high premium on the artistic talent of her labour.29

GERMANY

In Germany the small scale industries play an important part. For instance, the toy industry of Nuremberg and the clock making industry in the Black Forest, made a significant contribution to the industrial viability of Germany. The small scale industries of Germany are concentrated in Prussia, Saxony and Bavaria.

UNITED KINGDOM

Even in United Kingdom the small industries occupy an important place. Handloom weaving is flourishing in the Lake district and Sussex. Birmingham has been the home of an innumerable variety of small industries such as the manufacture of guns, locks and jewellery.

USA

In the United States of America, the small industries play an important role in printing and publishing, textiles and the manufacture of food and forestry products.

JAPAN

In the East, Japan is one which has advanced industrially to a considerable extent, on the edifice of small scale industries. A large part comprises manufacturing and quasi handicraft system. Chief among the industries that are run on a small-scale, are the food, lumber, furniture, bicycles and rayon textile industries.

In Japan, there were about 6,70,000 industrial units, of which 6,65,000 were smaller enterprises. Thus 99.4 percent of all manufacturing units were in the small sector which, accounted for 70 percent of the industrial employment, 50 percent of the industrial output and 40 percent of the export value of the products.

PROBLEMS OF SMALL SCALE INDUSTRY

Though the small scale industry is lauded for its outstanding role in the gamut of the economic development of a country, it faces a number of problems both before and after its establishment. Some of which are discussed below:

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30 Nanjappa, K.L. Japan - a land of small industries, Deccan Herald, Jan.18, 1980, p.6
The growth and development of small sector units has been constrained by several factors including technological obsolescence, inadequate and irregular supply of raw materials, lack of organised marketing channels, imperfect knowledge of market conditions, unorganised nature of operations, inadequate availability of credit, constraints of infrastructural facilities including power and deficient managerial and technical skills\textsuperscript{31}.

In the words of the Fiscal Commission: the small industries inherently suffer from certain handicaps, viz., inability to command efficient management, lack of capital, tax problems and the unfair use of power by large competitors\textsuperscript{32}.

Many small industries are now facing a crisis, deteriorating in output and in employment. There are several reasons for this deterioration and the slow rate of their progress: too little initiative on the part of the private sector, too great reliance upon Government to take action and upon Government purchasing orders, outdated production and marketing methods, lack of better quality raw materials, lack of better designs, lack of better power facilities and finally lack of systematic approach towards improvement\textsuperscript{33}.

\textsuperscript{31} Kuchal S.C.; The Industrial Economy of India, Chaitanya Publishing House, Allahabad, 1989. p. 228

\textsuperscript{32} Government of India, Fiscal Commission Report (1949-50), New Delhi, P. 102

Commenting on the problems of small industries, the NSIC stated that "deficiencies in methods of production, lack of adequate finance and proper management as well as marketing facilities are considered to be some of the factors that have contributed to the slow progress in the development of small scale industries in India."

INITIAL ODDS

The moment the idea of setting up a small industry is conceived, there are a number of odds to be faced, such as preparation of a project report to ascertain the marketability of the product, technical feasibility and economic viability of the product, to determine the choice of manufacturing techniques, the availability of raw materials, finance etc., Problem is also involved in obtaining permission and licence from the Industries Department of the state, local bodies etc.,

PROLIFERATION OF UNITS

It is very easy to peep into the small scale sector, obtain financial and technical assistance from various promotional agencies and establish the unit. As a result many people compete in the small line of business. Such a mushroom growth in small industry, without proper direction, has largely accounted for their high mortality rate in recent years.

34 Government of India, NSIC's Administration Report (1956-57), New Delhi, p.2.
Even in the advanced countries like Japan, small industries face a number of problems on account of indiscriminate proliferation. To quote Mr. Yuzi Koyama of Japan: Despite the important role they are playing in the national economy of Japan, smaller industries are suffering from a number of difficulties, for instance, the existence of an extensive number of smaller industries and the subsequent over-competition, the instability of their business and their financial disadvantages, their lowest standard of technique and their outdated management methods based on experience and knack which result in lower productivity and lower standards of living: all these factors together prevent them from being prosperous\textsuperscript{36}.

**RAW MATERIALS**

Small units very often find it difficult to get raw materials of the required specifications in adequate quantities at competitive prices. Small industrialists generally have to utilise the services of middlemen who provide materials on credit basis. Such an arrangement results in higher costs of raw materials and is particularly disadvantageous in the case of imported raw materials in which the profit margins of middlemen are quite high. Their meagre resources induce small industrialists to use cheap and inferior type of materials which naturally affects the quality of their finished products. Further, the irregular supply of certain raw materials affects their production programmes. The raw material problem has been

extremely acute for steel based industries like bicycles and parts, sewing machines and parts, automobile leaf springs etc\textsuperscript{37}.

Preference is given to priority industries or to those that are specially categorized as industries of national importance. Such priority industries are often large establishments, and small establishments find themselves at the end of the queue. Even in purchasing other raw materials, small industrialists are handicapped. Since their requirements as well as resources are limited, they cannot get benefits of discounts and other concessions that go with bulk buying\textsuperscript{38}.

**INFRASTRUCTURE**

Most of these industrial units suffer from lack of proper factory space to run their workshops and generally they are housed in rented premises often in crowded and unhealthy localities. The factory accommodation may be either dilapidated residential building or tiny plot in a stinky slum (in city - urban areas) often at uneconomic rate\textsuperscript{39}. The housing of units in such centres creates difficulties regarding availability of power, proper installation of machinery, storage etc.,

\textsuperscript{37} RBI, Seminar on Financing Small Scale Industries in India, Background Papers, July 20-23, Vol.II Bombay 1959. p.30

\textsuperscript{38} Government of India, Small Industries Bulletin, No.6, New Delhi, August 1958. p.1

At present, many small scale manufacturers lack common facilities like heat treatment, electroplating, stove enamelling, case hardenings etc., because they cannot be provided out of the resources of individual units. Naturally they adopt crude methods or get the finishing done by outside parties or sell their products in unfinished form:

**PRODUCTIVITY**

Productivity is low in the entire sector of small industries and varies from worker to worker as tools are distinctive and unstandardised and physical conditions of work differ. Small enterprises which operate at low level of productivity may hamper sound development of national economy.⁴⁰

**FINANCE**

Among all the problems faced by small industries, absence of credit facilities has been the most serious. Small entrepreneurs invariably start their business with extremely limited capital scrapped from their own assets and borrowed at exorbitant rates of interest. As a result of this, production continues to be at low levels of efficiency yielding very little margin of profit for further investment.⁴¹

Lack of adequate finance is a serious drawback. Small scale industrialists do not have sufficient funds of their own for fixed capital investment nor can they

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⁴⁰ *Toyoroku Ando, Productivity - Vol. 1 No.1, New Delhi, 1959. p.27*

obtain the necessary resources from institutional agencies who are doubtful of the
ability of such borrowers to repay loans promptly in the absence of developed
markets for their products. Shortage of funds affect their ability to instal modern
machinery and tools and to maintain well organised and fully equipped factories.
Similarly, they cannot buy and store good quality raw materials or stock their
finished products, pack their goods attractive, have any sales organisation of their
own, furnish security deposits where needed etc.,

The initial investment of these small units comes mainly from within, most of
them invest their own funds or borrowed funds (mainly from relatives, friends and
professional lenders). Much less comes from banks and other Government
channels42.

A chronic shortage of finance both for renewing and expanding equipment and
for meeting the running expenses of the business is one of the most widespread and
typical characteristics of small industry in all countries. Even in countries that have
well developed financial institutions for channelling savings into productive
investments, small firms have difficulty in meeting the security requirements of
lending institutions43.

42 Desai, Vasanth. Problems and Prospects of Small Scale Industries in India,

43 Bauer, P.T. and Yamey B.S. The Economics of Underdeveloped Countries, James
Moreover, small scale units doing jobs or supplying goods to Government departments suffer due to the delays in payment of the bills for months and years and funds involved in those transactions remain blocked for long without their being ploughed back into the industry in time.

**PRODUCTION**

It is characteristic of many small firms that their methods of production are traditional and have not been adapted to take advantage of new tools, new materials and new markets. To quote UNESCO: In many small units the methods of production are traditional. Adoption of modern techniques is either disliked by the entrepreneurs or not feasible.

**MANAGEMENT AND TRAINING**

All the problems in a sense, are management problems and underlying all of them is a basic problem of management development and training. Many of the people engaged in small industries lack education in modern production techniques, management and marketing. They also do not show any initiative in introducing new designs to attract business and usually stick to traditional patterns. When units

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are set up without proper preparation and training, they are bound to run into rough weather.\textsuperscript{46}

\textbf{MARKETING}

Another great difficulty experienced by small industrial units is in marketing. They do not know what the market requires. It is also not possible for them to reach their goods to the consumer excepting through a long chain of middlemen.

Small scale industries face many problems while marketing their products. This is mainly because of the absence of well developed sales organisation comparable with that of larger competing units, absence of standardisation of products, inability to meet the requirements of Government and other bulk purchasers and the urgent need to dispose of their products immediately at any available price due to paucity of working capital and consequent lack of staying power.

They cannot afford the cost of maintaining showrooms or display windows. Nor can they keep up contacts with distant markets or distribution agencies. Very often they are obliged to sell their products to middlemen who advance them credit at high interest rates.\textsuperscript{47}

\textsuperscript{46} Pawar, B.B. \textit{Sickness in Small Industries}, Commerce, Annual Number 1988. p.41

The government efforts in extending marketing support, through various agencies, have been poor. Majority of small entrepreneurs are forced to face the market on their own. As a result, they get the worst of the bargain and the situation is thoroughly exploited by middlemen 48.

**TRAINED MANPOWER**

A shortage of trained manpower is yet another common feature of all developing countries and presents special difficulties for small enterprises, which have to compete with large industry for the services of skilled workers but often fail to attract or retain such workers at the wages and terms of service they can afford to offer 49. They are, therefore, obliged to recruit unskilled workers and train them on the job. This may result in lower productivity. Moreover small firms have limited training facilities and the skill of the workers, therefore, remains low.

**POWER**

It should be noted that in many areas, small units find it difficult to get power connections as priority is given to other consumers by the distributing authorities. It should also be noted that the average rates paid by small scale units for power consumption are very much higher than those paid by large scale units, very often

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more than double and in some cases over three times. This places small units at a great disadvantage in competition with large scale units.

Shortage of electric supply in certain places, ever changing timings of power supply and high rates at which power is supplied, result in under-utilisation of installed capacity and rising costs of production.

**SUPPLY OF MACHINERY**

One of the main handicaps of small industrialists is the shortage of funds to acquire machines and tools. As a result, they are forced to use obsolete and outdated machinery. This affects both the quantity and quality of their production.

It is difficult for small enterprises to purchase machinery, equipment and raw materials. In most developing countries, machinery and equipment have to be imported. The small entrepreneurs are the worst sufferers due to shortage of foreign exchange.

**TRANSPORT**

Difficulties in adequate transport facilities are experienced by small units. They have to depend on regular supplies of raw materials as well as quick distribution of finished goods, since they cannot afford to maintain large stock.
STANDARDISATION AND QUALITY CONTROL

Absence of standards and lack of facilities for quality control hamper sale of products of small scale industries. Even in respect of products where standards have been laid down by the Indian Standards Institution, small units do not strictly conform to these specifications. Small entrepreneurs are generally unaware of the importance of quality. Apart from their lack of knowledge about standards, they may not have the facilities, machinery and equipment for quality control and testing. In packaging, small enterprises are backward compared with the large firms. They also lack the resources and training needed to present their wares with proper consumer appeal.  

GOVERNMENT PURCHASES

Government is one of the largest bulk purchasers of products that could be manufactured by small industrialists. But most of such industrial units are unable to fulfil the requirements of Government purchasing agencies especially those relating to security of deposit, bank guarantee, income tax clearance certificate etc., The delay in payment of bills, which is quite common, also blocks up working capital.

50 United Nations Industrial Development Organisation - Industrialisation of Developing Countries - Problems and Prospects, Small C.
LABOUR

Labour is one of the important factors which plays a decisive role especially in the efficient running of small units. Unfortunately, there is lack of adequate availability of skilled labour for small industries. There is high rate of absenteeism and turnover among the labour employed in these industries. Moreover, the productivity of labour is low due to many factors like politicisation of trade unions etc.,

The small units ignore the labour laws, adopt their own hire and fire policy towards workers, pay low wages and with longer working hours. The working conditions are far from satisfactory without any safety measures. The situation is further worsened in the absence of trade unions.

COMPETITION FROM LARGE INDUSTRY

Small industrial units face fierce competition from large industrial houses with respect to acquisition of materials for production, marketing their products, obtaining skilled labour and adequate finance etc. Large scale industries, organised as they are on modern lines, using latest production technology and having access to many facilities, can easily outsell the small producers.

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RECOVERIES

One of the most difficult problems faced by the small industrialists is recoveries from sales. The practice of granting credit has caused severe strains in their financial position. This is further complicated in the absence of adequate and timely credit facilities from the institutional and Government sources.

FAULTY PLANNING AND MORTALITY

Many small units are started without proper studies - technical, economic or viability so as to ascertain the availability of basic inputs and the extent of marketability of finished products. This has given rise to high incidence of sickness among these units.

Due to indiscriminate sponsoring of small units, there is a high rate of infant mortality among them. Such a practice leads to many malpractices in the name of the small sector. It is a common knowledge that some small entrepreneurs have a vested interest in remaining small so that they may avail themselves of such Government concessions as quota for scarce raw materials, tax rebates and power and capital subsidies etc.,

FACTORY ACCOMMODATION

Acquiring suitable factory premises is one of the serious problems of small scale industry. There is an acute shortage of rented accommodation in most developing countries and entrepreneurs are, therefore, obliged to pay for the construction of
their factory buildings. Apart from the difficulty in raising capital, the small entrepreneur has to face several other problems. The procedures for acquiring a suitable plot and getting utilities such as water, power, gas etc., are generally more difficult for a small than for a large entrepreneur.

**SIGNIFICANCE OF THE STUDY**

India has embarked on ushering the much cherished *Socialistic pattern of Society* for the benefits of the millions of poor and down-trodden. Mahatma Gandhi was of the view that real socialism lay in the development of Small Scale Technology, Small Scale Enterprise, Workshops and Small Factories serving the Community. Such technology is more appropriate tool to benefit the poor. Small Industry involves humanisation of work process. It emphasises on identification of what people are doing and help them do better.

SSI sector contributes in a large measure to the growth of the economy in as much as they contribute to the employment generation, entrepreneurship development, export promotion, etc which hold the key for the industrial prosperity of the nation. Development of the Industrial Sector is therefore a crucial need in any country especially in a developing country like India.

Realising the importance of SSI units and the imperative need to develop them, Governments - both the Central and the States have been meticulously

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implementing several social programmes from time to time for accelerating the industrial tempo of the country.

One of the important measures taken by the Union Government was the launching of the Programme of Industrial Estates at the end of the First Five Year Plan. This programme was aimed at making available all infrastructure facilities and amenities for the development and promotion of the SSI Sector. The facilities offered by these Estates included accommodation, transport, communication, drainage, banking, common service facilities etc. The small entrepreneurs, who were attracted by this package deal have enthusiastically responded and established a large number of Industrial Units in such Estates in Tamil Nadu.

Following the Union Government’s initiative in launching this programme, many State Governments started taking relevant measures. The first Industrial Estate was established in the year 1955 at Rajkot by the Saurashtra Government and many states followed suit. There are as many as 632 Industrial Estates in the country as on 31.3.1992.

The Government of Tamil Nadu has also implemented this programme with great success. The Industrial Estates in Tamil Nadu are managed by the Small Industries Development Corporation (SIDCO). There are as many as 57 Industrial Estates as on 31.3.1992 which are administered by the SIDCO.
REVIEW OF SELECTED LITERATURE

A number of research studies have been done both on the programme of Industrial Estates in general and also on the problems of SSI. The researcher makes here an attempt to review some of those selected relevant literatures.

ON THE PROGRAMME OF INDUSTRIAL ESTATES

P.C. Alexander  

examines the concept, designing and the progress of the Industrial Estates upto the end of the Second Five Year Plan

D. Nagaiya's study reviews the progress of the IEs programme upto 1969. His study reveals two disquieting features in the progress of the IEs movement. They are (i) non-occupation of the constructed sheds and (ii) partial functioning of the occupied sheds.

Somasekharas while studying the IEs of Mysore State, finds that the rate of vacancy of sheds was higher for the estates which have been located in the backward areas. He concludes in his study that a minimum of industrialisation and some enterprise must exist and only then the IEs programme would be successful.

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53  Alexander P.C. Industrial Estates in India, Asia Publishing House, Bombay, 1963

54  Nagaiya D. Industrial Estates - The Indian Experience, National Small Industry Extension Training Institute, Hyderabad, 1971.

In another study of the IEs of West Bengal, Kalyani Bandyopadhaya finds that wrong location of the estate in a rural area is responsible for its failure.

The findings of R.L. Singhvi, on the other hand, suggest that both appropriate location and extent of development of the place as the factors responsible for the success of the programme of industrial estates.

P.R. Kulkarni's study analyses the performance of IEs in Maharashtra. The conclusions in general also follow the same lines with units in IEs showing an inferior performance compared to units outside.

Urmil Chopra's study contains inter-estate, inter-location and inter-industry comparison within the IEs. The study, however, does not undertake comparative assessment of units inside IEs and outside IEs.

Gopinath Pradhan has two dimensions in his study. The first dimension compares the performance of IEs over the other regions with an industrial activity

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57 Singhvi, R.L., Role of Industrial Estates in an Developing Economy, Multi-tech Publishing Company, New Delhi, 1979


60 Pradhan, Gopinath Estates and State Development, Criterion Publications, New Delhi, 1985
as the basis. The second dimension takes a similar comparison with a district as the base.

K.K. Khakhar\textsuperscript{61}, in his study, brings out the role of IEs in Urbanisation and compares the experiences of the USA and UK with that of India.

Deepak Agarwal\textsuperscript{62} presents the micro characteristics of the five IEs of the State of Uttar Pradesh taken up as a case study. He also studies the prospects of the programme of IEs in under developed countries.

**ON THE PROBLEMS OF SMALL SCALE INDUSTRY**

One of the earliest proponents of cottage and small industries, R.V. Rao\textsuperscript{63}, makes a vigorous appeal to adopt small industry for industrialisation of India. He very convincingly points out the role of Cottage and small industry in India and also discusses in detail the meaning, scope and relevance of small industry in India's development.

\textsuperscript{61} Khakhar, K.K., *Urbanisation and Role of Industrial Estates - the USA, the UK and the Indian Experience*, Asish Publishing House, New Delhi, 1985.

\textsuperscript{62} Agarwal Deepak, *Prospects of Industrial Estates in under developed Countries*, Chugh Publications, Allahabad, 1986

T.K. Lakshman, in his study makes a pioneering empirical investigation into the nature, scope and problems of cottage and small industries. The issues like equipment obsolescence, capacity utilisation, productivity, raw materials supply, marketing and problems of finance have been discussed in more detail.

Vasant Desai critically examines the problems and prospects of small scale industries in India, paying particular attention to sickness in SSI.

S. N. Bhattacharya studies various problems and development of small scale and cottage industries in India, through critical reviews, analysis and case studies of national and international experiences.

Ghanashyam Panda studies the working capital problems of small manufacturing companies. It covers the problems of adequate choice, sources and problems of raising working capital.

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64 **Lakshman, T.K.** *Cottage and Small Scale Industries in Mysore, Rao and Raghavan, Bombay, 1970.*


66 **Bhattacharya, S.N.** *Development of Small Scale and Cottage Industries, Metropolitan Book Company (Pvt) Ltd, New Delhi, 1986*

Ramkrishna Sharma makes his first study on the SSI sector in Andhra Pradesh based on the census data. He probes into the root of the problem of sickness and mortality in the SSI sector and examines the implications of latest policies of the Govt. towards this sector.

Ramesh. P. Sinha, in his work studies the problems of small scale industries in and around the city of Patna. He also focuses his attention on the patterns of assistance provided by the Government for the growth of small-scale enterprises.

The number of sample studies shown above by the researcher only represent the studies conducted either on the programme of IEs or on the problems of small scale industries. Hence, the present study carried out by the researcher is the pioneering one, since it focuses its attention on the study of problems of small units in the IEs, especially of the engineering category and compares it with the problems faced by the non-engineering units in IEs and by the engineering units outside IEs. It is therefore strongly hoped that the present study can fill this serious gap.

The study has brought to light many interesting problems and provided an empirical basis for offering specific suggestions for all round development of not only engineering units but also non-engineering units in IEs.

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NEED FOR THE PRESENT STUDY

It would appear for a layman that the Small Units located in the Industrial Estates are better off and that they do not face any problem as they are provided with all the facilities for their development. But, this belief is far from reality.

In fact, such units face innumerable problems like their counterparts which are located outside the Industrial Estates. This study has been undertaken chiefly to probe into and analyse such problems and explode the myth surrounding such units and also to suggest measures that would help overcome such problems in future.

Though it is true that a number of research studies have already been conducted on the working of the Industrial Estates Programme and on the problems of Small Units, in various parts of India, no attempt has been made to conduct any indepth study of the problems of Small Scale Industries that are located in the Industrial Estates, particularly in the State of Tamil Nadu. It is only for this reason that the researcher has undertaken this theme for his research study. An earnest attempt has been made to probe into and analyse the multifarious problems faced by the Small Units in the Industrial Estates of Tamil Nadu and compare their problems with those of the small scale units located outside the Industrial Estates in Tamil Nadu especially of the problems of eng. units.
OBJECTIVES OF THE STUDY

The following are the objectives of the study:

1. To discuss the role, achievements and problems of SSI and the rationale of the Industrial Estates Programme in general.
2. To examine the nature of contributions made by SSI as regards growth in production, employment etc., in Tamil Nadu.
3. To comment on the role of SIDCO in the administration of the Industrial Estates of Tamil Nadu.
4. To identify and analyse the magnitude of the problems faced by SSI units located in the Industrial Estates of Tamil Nadu.
5. To compare and analyse the problems faced by Small Units in the Industrial Estates with the units outside the Industrial Estates of Tamil Nadu.
6. To suggest measures for overcoming the problems faced by small units in the Industrial Estates of Tamil Nadu.

PERIOD OF STUDY

The research study covers all those Small Units which were in existence on 31.3.1988 so as to cover a minimum period of five years i.e. till 31.3.1993.
METHODOLOGY

The study is based both on the primary as well as secondary data. The primary data have been collected through schedules by way of personal interviews with the entrepreneurs of carefully selected sample SSI Units in all the Industrial Estates in the Sample Districts of Tamil Nadu.

The schedule used for collecting primary data was pre-tested with the carefully selected number of Small Units both within and outside the Industrial Estates and necessary corrections, as suggested by them, were carried out in order to ensure the availability, relevance and reliability of data collected for the present study.

The secondary data have been collected from the reports published by the Directorate of Industries and Commerce and also the Annual Reports of SIDCO, and other organisations and agencies concerned with the development of SSI in Tamil Nadu.

In the course of this research study reference was made to a number of publications available on the subject in various libraries all over India including the Library at the National Small Industry Extension Training Institute, Hyderabad.

SELECTION OF THE UNIVERSE

Out of the total number of 20 districts in Tamil Nadu as on 31.3.1988, three districts such as Chengleput, Madras and Trichy have been selected for the present study. The three districts were selected on the basis of the total number of
industrial units they command in their respective Industrial Estates. Chengleput
district tops with 909 units followed by Madras with 441 units and Trichy with 243
units. A profile of the three sample districts is depicted in Table 1.3.

Moreover, these three districts alone account for 61 percent of the total
number of SSI units in all the IEs of Tamil Nadu. The district-wise breakup of
industrial estates, industrial units, total project cost and the number of personnel
employed are shown in table 4.4. in Chapter 4 on the Industrial Profile of Tamil
Nadu.

SELECTION OF SAMPLE UNITS

For the present study, random and stratified random sampling methods have
been adopted in the process of selection of Sample Small Units both located within
and outside the Industrial Estates of Tamil Nadu.

For the purpose of selecting Sample Units in the Industrial Estates, information
available in the S.S.I. Directory, March 1988, published by the SIDCO, Madras an
organisation responsible for the administration of Industrial Estates in Tamil Nadu,
has been used extensively.

For selecting the Sample Units located outside the Industrial Estate, the S.S.I.
Directory published by the Directorate of Industries and Commerce, Government
of Tamil Nadu has been used. The Sample Units selected for the survey outside
Industrial Estates belong to the Engineering Industry Group only.
<table>
<thead>
<tr>
<th>S.No</th>
<th>Category</th>
<th>Chengalpattu</th>
<th>Madras</th>
<th>Tiruchy</th>
<th>Grand Total</th>
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<td>Engineer</td>
<td>26</td>
<td>634</td>
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</table>

* Figures in brackets indicate percentage to the total.

** Includes basic metal industries, metal products, non-electrical machinery and parts, machinery and parts, electrical machinery, transport equipment and miscellaneous manufacturing industries.

† Includes major industries like rubber and plastic products, chemical and chemical products, paper products and printing and miscellaneous industries like food products, textiles, wood products, leather products etc.

The Sample Units in the Industrial Estates have been divided into Engineering and Non Engineering Industry Groups. As many as 120 Units were covered under the Engineering Industry category and 40 Units from non engineering industry category covering a total of 160 Units in the three sample districts viz., CHINGLEPUT, MADRAS and TRICHY.

Besides, a sample of 40 Units were also selected at random from the Engineering Industry category which are located outside the Industrial Estates of Tamil Nadu so as to compare and analyse the problems of Small Units in the Industrial Estates of Tamil Nadu, thus covering a total sample of 200 industrial units.

The method of selecting the Sample Units is given in Table 1.4 below:

**TABLE 1.4**

**SELECTION OF SAMPLE UNITS**

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Industry Group</th>
<th>Total No. of Units in Three Sample Districts</th>
<th>% of Sampling</th>
<th>No. of Sample Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Eng. units in IEs</td>
<td>1211</td>
<td>10</td>
<td>120</td>
</tr>
<tr>
<td>2</td>
<td>Non Eng. units in IEs</td>
<td>382</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>1593</strong></td>
<td><strong>10</strong></td>
<td><strong>160</strong></td>
</tr>
<tr>
<td>3</td>
<td>Eng. units outside IEs</td>
<td>-</td>
<td>-</td>
<td>40</td>
</tr>
</tbody>
</table>
The researcher has personally visited all the 160 Small Industrial Units in the 13 Industrial Estates in the three Sample Districts and 40 Engineering Small Units located outside the Industrial Estates of Tamil Nadu and collected information and opinions directly from SSI Units with the help of Schedules.

Discussions were also held by the researcher with the authorities of the Government like the SIDCO, Directorate of Industries and Commerce, TNEB, and the Department of Sales Tax to elicit their views and to corroborate with the views already expressed by the Small Units while executing this Project.

After completing personal interviews and collecting the raw data from these 200 sample units, they were processed further for an indepth analysis. One-way and two-way tables were prepared and percentages and averages were worked out. Bar diagram, graphs and Statistical Tools such as Correlation Analysis, Trend Analysis, large sample test for proportion, test for mean etc., have all been employed in the present study.

LIMITATIONS OF THE STUDY

As the problems of Small Units relate to the Study of Tamil Nadu, the findings cannot be universally applicable to all other states in India because of the differences in topology, culture, social, economic and other factors, apart from the variations in the statutory enactments in each State passed from time to time for fostering the industrial development.
The study covers only the general problems pertaining to Small Units in the Industrial Estates relating to Engineering and Non. Engineering Industry Category and those outside Industrial Estates relating to Engineering Industry Category only.

The study covers only those SSI Units which were in existence in the Industrial Estates of Tamil Nadu as on 31.3.1988 and only those units whose capital investment in plant and machinery is upto Rs. 35 lakhs and upto Rs. 45 lakhs in the case of ancillary units. The type of Industrial Estates covered in the study are of general nature.

Though there are as many as 57 Industrial Estates as on March 31, 1992 as per the Annual Report 1991-92, SIDCO, Madras, Government of Tamil Nadu only 49 Industrial Estates that were in existence as on March 31, 1988 as per the SIDCO's Industrial Estates SSI Directory have been taken into consideration for the present study.

CHAPTERISATION

The Study is divided into Six Chapters.

The First Chapter gives an overview of SSI including the concept, role and problems of Small Industries. Small industry in select countries is also dealt with in this chapter besides the general introduction. Government Policy on SSI and Institutions assisting SSI are dealt with in the Second Chapter. This chapter also focuses the achievement of the SSI sector in India, the progress made under the Five Year Plans.
Industrial Estates Programme, its philosophy, role and rationale, Government Policy thereon, Industrial Estates in other countries, objectives of the Industrial Estates Programme in India and their types are all discussed in the Third Chapter. This Chapter also traces the growth and progress of Industrial Estates in India, especially under the Five Year Plans and their Statewise growth.

The Fourth Chapter deals with the Industrial Profile of Tamil Nadu. Growth of SSI sector, Government Policy on SSI, progress made by SSI and the role of SIDCO.

The salient features and analysis of the problems of the Sample Small Units in and outside the Industrial Estates of Tamil Nadu are portrayed in the Fifth Chapter.

The Concluding Chapter contains the summary of findings, suggestions and conclusions.

The researcher is of the view that this research study will be of great interest and immense use to not only academicians and fellow researchers but also to various officials and non-officials connected with the promotion of the SSI Sector and the administration of the Industrial Estates Programme in Tamil Nadu in particular and in all other states of India in general.